LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7834 | **NOTE PREPARED:** Mar 21, 2005
BILL NUMBER: SB 1 | **BILL AMENDED:** Mar 17, 2005

SUBJECT: Tax Incentives.

FIRST AUTHOR: Sen. Ford | **BILL STATUS:** As Passed House
FIRST SPONSOR: Rep. Turner

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Global Commerce Centers:* The bill permits the Economic Development Corporation to designate certain areas as Global Commerce Centers.

Abatements and TIF Areas: This bill extends the termination date for authority to approve new property tax abatements or to establish new tax increment finance (TIF) areas from December 31, 2005, to December 31, 2017. It repeals the limitation of tax abatements for new logistical distribution equipment and new information technology equipment to certain counties located along Interstate Highway 69. The bill requires the filing of a personal property return schedule to apply for personal property tax abatement (instead of filing a separate application deduction) and provides that if the township assessor or county assessor does not deny the application, the abatement applies in the amount claimed or in an amount determined by the township assessor or county assessor. The bill changes the procedure for appealing a denial of a property tax deduction or the alteration of a deduction amount in an Economic Revitalization Area. The bill also changes the deadline for submitting information updating a taxpayer's compliance with the taxpayer's statement of benefits that is required to obtain a property tax deduction in an Economic Revitalization Area.

Property Tax Investment Deduction (Limited): This bill establishes a property tax investment deduction for certain real property development, redevelopment, or rehabilitation that increases assessed value and creates or retains employment. It establishes a similar deduction for the installation of personal property other than inventory subject to the same conditions and limitation.

Property Tax Investment Deduction (General): The bill also establishes an assessment phase-in deduction for improvements to business and nonbusiness real property and the installation of business and nonbusiness personal property (other than property used in a retail business).

Sales Tax Exemption/Credit: This bill expands the Sales Tax exemption for tangible personal property used by professional motor vehicle racing teams. It exempts a person from 100% of the Sales Tax on research and development equipment acquired after June 30, 2007. The bill also provides a refund of 50% of the Sales Taxes paid on transactions involving research and development equipment acquired after June 30, 2005, and before July 1, 2007.

Research Expense Credit: The bill increases the Qualified Research Expense Credit from 10% to 15% on the first $1,000,000 of investment for taxable years beginning after December 31, 2007. It reduces from 15 to 10 the number of years for which a taxpayer may carry over a Research Expense Credit.

Venture Capital Investment Tax Credit: This bill excludes certain debt provided by a financial institution after May 15, 2005, from the definition of "qualified investment capital" that is eligible for the Venture Capital Investment Tax Credit. It specifies that a business primarily focused on professional motor vehicle racing is eligible for certification as a qualified Indiana business for purposes of the Venture Capital Investment Tax Credit. The bill increases the total amount of Venture Capital Investment Tax Credits that may be allowed in a calendar year from $10,000,000 to $12,500,000. The bill also provides that a taxpayer may not carry over a Venture Capital Investment Credit for more than five taxable years following the first taxable year in which the credit is claimed.

Hoosier Scholars Tax Credit: This bill provides a refundable tax credit to a person who graduates from college or university with certain degrees and obtains employment in Madison, Grant, or Huntington County.

Headquarters Relocation Tax Credit: The bill provides that a business that relocates its corporate headquarters to a location in Indiana is entitled to a credit against its state tax liability equal to 50% of the costs incurred in relocating the headquarters.

Regional Venture Capital Funds: The bill authorizes counties, cities, and towns that receive County Economic Development Income Taxes to establish regional venture capital funds by pooling taxes payable to the participating units. It provides that a regional venture capital fund shall be administered by a governing board. It also authorizes the governing board to make grants or loans from the fund to public or private entities for economic development purposes.

This bill also makes technical changes.

Effective Date: (Amended) January 1, 2005 (retroactive); February 9, 2005 (retroactive); Upon passage; May 15, 2005; July 1, 2005; January 1, 2006.

Explanation of State Expenditures: *Global Commerce Centers:* The bill authorizes the Indiana Economic Development Corporation (IEDC) to designate up to three Global Commerce Centers to expire 15 years after designation. The IEDC would have to adopt rules to establish application procedures and review and approve applications for Centers. The bill also provides for the IEDC to establish a procedure for monitoring and evaluating Centers on an annual basis.

Venture Capital Investment Tax Credit: The bill extends eligibility for the Venture Capital Investment Tax

Credit to businesses primarily focused on professional motor vehicle racing. This could potentially result in a minimal increase in the number of businesses that annually seek certification for the credit. The Indiana Economic Development Corporation (IEDC) should have sufficient resources to implement this change.

Headquarters Relocation Tax Credit: The bill requires the DOR to make determinations regarding expenditures reportedly made due to a corporate headquarter relocation. The bill requires the DOR to determine whether expenditures made by a taxpayer were the result of the relocation of a corporate headquarters and whether the expenditures would have occurred regardless of the headquarters relocation.

Regional Venture Capital Funds: Under the bill, any regional venture capital fund (RVCF) established by a county would be subject to an annual audit by the State Board of Accounts (SBA). The audit of an RVCF could likely occur at the time the SBA audits other funds of the county. SBA personnel would likely see an increase in administrative time to complete the audit of any new RVCF established under the bill.

Additionally, any agreement reached between multiple units to establish an RVCF and a governing board would have to be submitted to the Indiana Economic Development Corporation (IEDC) for approval before contributions to the RVCF could begin. The provision would likely increase the administrative time of the IEDC to approve RVCF multiple unit agreements.

Department of State Revenue (DOR): Generally, the DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the various changes and tax credits contained in this bill. The DOR's current level of resources should be sufficient to implement these changes.

(Revised) *Indiana Growth Scholars Program:* This bill creates the Indiana Growth Scholars Program to be administered by the State Student Assistance Commission. The Commission may employ or contract with for staff to help administer this program. The Commission shall grant provisional tax credits to eligible students who are enrolled full-time as undergraduates in a degree program in a college or university located in Madison, Grant, or Huntington County. *(See Explanation of State Revenue below for more details of this program.)*

Explanation of State Revenues: (Revised) The estimated revenue loss to the state from changes in the bill is summarized in the table below:

	FY 2006	**FY 2007**	**FY 2008**
R & D Sales Tax Exemption/Credit	(11.4 - 28.3 M)	(12.6 - 31.3 M)	(26.0 - 64.0 M)
Research Expense Income Tax Credit	0	0	(2.2 M)
Venture Capital Investment Tax Credit	(2.5 M)	(2.5 M)	(2.5 M)
Headquarters Relocation Tax Credit	0	Indeterminable	Indeterminable
Hoosier Scholars Tax Credit		Indeterminable	Indeterminable
Total	**(13.9 - 30.8 M)**	**(15.1 - 33.8 M)**	**(30.7 - 68.7 M)**

Sales Tax Exemption for Professional Motor Vehicle Racing Teams: This bill exempts from the state's Sales Tax tangible personal property that:

(1) is leased, owned, or operated by a professional racing team; and
(2) comprises any part of a professional motor racing vehicle, excluding tires and accessories.

The Department of State Revenue (DOR) published *Information Bulletin #67* which states that "a racing vehicle purchased by a professional racing team is exempt from Indiana Sales and Use Tax except for the tires and accessories." Therefore, this bill codifies the DOR’s interpretation of the current exemption under IC 6-2.5-5-37.

Research and Development Sales Tax Exemption/Credit: This bill provides a refund of 50% of the Sales Taxes paid on transactions involving research and development equipment for FY 2006 and FY 2007. The bill provides an exemption from 100% of the Sales Tax on research and development equipment beginning in FY 2008.

The 50% refund is estimated to reduce state Sales Tax revenue by approximately $11.4 M to $28.3 M in FY 2006, and $12.6 M to $31.3 M in FY 2007. The exemption that begins in FY 2008 is estimated to reduce Sales Tax revenue by approximately $26 M to $64 M in FY 2008. This estimate is based on data obtained from the National Science Foundation (NSF) that describes the total value of industrial research and development performed in Indiana through CY 2000. Based on past R&D expenditures and adjusting for historical growth, it is estimated that in FY2006, Indiana firms will expend a total of approximately $2,944 M on R&D in Indiana. In FY 2007, these expenditures are expected to increase to $2,984 M. Using NSF information on how R&D funds are spent, it is estimated that approximately 14% to 35% of Indiana R&D expenditures would be subject to the state’s Sales Tax.

Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Research Expense Income Tax Credit: The bill clarifies that this credit applies only to Indiana qualified research expenses and gross receipts attributable to Indiana in the calculation of this credit. This bill also increases the credit from 10% to 15% on the first $1,000,000 of investment for tax years beginning January 1, 2008. The bill reduces from 15 to 10 the number of years for which a taxpayer may carry over a research expense credit. The incremental revenue loss from increasing the rate of this credit is estimated to be $1.5 M. However, the increase in the state’s liability for this credit could potentially be $2.2 M annually, with $.6 M in liabilities being carried forward each year due to the fact that businesses qualifying for credits may have insufficient tax liabilities to use the credits earned during the taxable year. The potential increase cost of this credit would depend on the frequency and cost of future research activities and income growth of taxpayers making creditable research expenditures. This increase in the amount of credit would affect revenue collections beginning in FY 2008 and years after.

Background: P.L. 242-2002 (ss) increased this credit from 5% to 10% of qualified expenses for tax years beginning January 1, 2003, and eliminated the apportionment factor used to calculate the credit. P.L. 81-2004 made this tax credit permanent. This bill will increase the credit to 15% with tax years beginning January 1, 2008.

The Research Expense Credit is available for individuals, corporations, limited liability companies, limited liability partnerships, trusts, or partnerships who have increased research activities conducted in Indiana. The credit is calculated based on the increased expenses a taxpayer incurred over their base year expenditures. The base year expenditures are measured for taxable years beginning after December 31, 1989, and are equal to the federal base amount as defined in the Internal Revenue Code (2001). A taxpayer is not entitled to a carryback or refund, but may carry forward the tax credit for 15 years. The base year expenses may not be less than 50% of the current tax year's qualified research expenses.

Preliminary data on the amount of credits claimed after the changes made by P.L. 242-2002(ss) suggest that approximately $48 M in credits have been *claimed* in the 2003 tax year. This suggests that the base of the potential credits almost doubled over prior levels. However, since there is currently such a large number of suspended returns, DOR is unable to report the level of actual credits *utilized* for tax year 2003, which would indicate the direct and immediate revenue loss from the changes in the rate and base of the credit. A simulation of taxpayers suggests that the increase in the rate from 5% to 10% doubles the potential credits *claimed*, but only 80% of these credits would be *utilized* and 20% of the credits would be carried forward. This simulation also suggested that an increase in the rate of the credit from 10% to 15% on the first $1M investment would increase the credits *claimed* by another $1.5 M, with $0.6M of the credits being carried forward. Tax year 2001 tax return data indicates that almost 89% of individual filers reporting some business net income had income tax liabilities of $3,400 or less. For the same year, 88% of corporate filers had income tax liabilities of $10,000 or less.

A history of the Research Expense Credits taken on the individual and corporate tax returns for the last five years is reported in the table below.

History of Research Expense Credits Utilized				
Tax Year	**Tax Rate**	**Indiv. AGI Credits**	**Corp. Tax Credits**	**Total Credits**
1999	5%	$1.6 M	$25.8 M	$27.4 M
2000	5%	$1.6 M	$18.1 M	$19.7 M
2001	5%	$1.2 M	$21.6 M	$22.8 M
2002*	5%	$1.3 M	$12.3 M *	$13.6 M *
2003*	10%	$2.2 M	$14.0 M *	$16.2 M *
** 2002 & 2003 tax year estimates are preliminary due to a large number of suspended returns.*				

Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment. Assuming this economic impact would not have happened absent this incentive, the actual revenue loss from this credit would be mitigated by the incremental increase in other taxes generated by the research activities.

The Research Expense Tax Credit affects revenue collections deposited in the General Fund and the Property Tax Replacement Fund.

Venture Capital Investment (VCI) Tax Credit: The bill makes the following changes to the VCI Tax Credit.

(1) The bill increases the annual aggregate limit on VCI credits that may be claimed by investors for venture

capital investment in qualified companies. The bill increases the annual credit limit from $10 M to $12.5 M, beginning in calendar year 2005. The potential annual increase of $2.5 M in credits claimed for the period 2005 through 2008 could potentially increase the total cost of the credit by $10 M before it expires. However, the additional fiscal impact depends on action by the IEDC to certify companies for purposes of the credit, and by investors to follow through with creditable investment.

In 2004, 42 companies were designated as qualified to receive venture capital investment for which the investors could claim VCI credits. For 2004, about $16.3 M in credits were committed to these companies based on their proposed investment levels. However, only $10 M in credits could be claimed by investors due to the annual aggregate credit limit set under current statute. At this time, the investors have made sufficient investment in the 42 qualified companies to claim approximately $3.8 M of the 2004 committed tax credits. Under current law, a taxpayer may claim the VCI credits against the State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability.

(2) The bill limits the carry forward of unused VCI credits to five years. Under current statute, there is no limit the carry forward period. The impact of this change is indeterminable as data is unavailable relating to credit use and carry forward.

(3) The bill extends eligibility for the VCI Tax Credit to businesses primarily focused on professional motor vehicle racing. This provision could potentially increase the number of businesses qualifying for the credit, but would not increase the fiscal impact of the tax credit due to the annual limit on new credits.

(4) The bill excludes certain secured debt financing of financial institutions from qualifying for the VCI Tax Credit. This exclusion would apply to debt financing provided by a financial institution after May 15, 2005, if it is secured by a mortgage or other agreement that establishes a collateral or security position for the financial institution that is senior to collateral or security interests of other investors in the qualified company.

Background: The Venture Capital Investment Tax Credit is a nonrefundable tax credit equal to the lesser of: (1) 20% of qualified investment capital (debt or equity capital) provided to a *qualified Indiana business* during a calendar year; or (2) $500,000. The tax credit is allowed for venture capital investment made from January 1, 2004, to December 31, 2008. Under current law, a taxpayer may claim the credit against the State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. While the tax credit is nonrefundable, it may be carried forward to subsequent years. No carryback of the tax credit is allowed. Current statute sets an annual limit equal to $10 M on the total new credits certified by the IEDC for venture capital investment. A taxpayer must provide the venture capital investment to the qualified company within two years. Carryover credits claimed in a taxable year are not counted toward the $10 M annual maximum.

(Revised) *Headquarters Relocation Tax Credit:* The tax credit could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax when a business undertakes an eligible headquarters relocation to Indiana. The potential fiscal impact of this credit is indeterminable. Any resultant fiscal impact could commence in FY 2007 depending upon when qualified relocations might occur.

Background: The bill establishes a nonrefundable tax credit against a taxpayer's AGI Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for relocating a corporate headquarters to Indiana. The credit is equal to 50% of the taxpayer's relocation costs in a given tax year. The net revenue impact of the

Headquarters Relocation Tax Credit depends on the extent that tax collections on headquarters employees and other taxable activities attributable to the headquarters is less than or exceeds the credits claimed by the business. However, if the headquarters relocation had occurred in the absence of the tax credit, the net impact would be the total credits claimed by the business. Data analysis by researchers at the Chicago Federal Reserve Bank indicates that two corporate headquarters moved into the Indianapolis metropolitan statistical area from 1990 to 2000. This data analysis, however, was not performed on a statewide basis or on any other distinct metropolitan area in Indiana. In addition, the analysis focused only on public companies with worldwide employment of at least 2,500.

To qualify for the tax credit, the taxpayer must relocate the corporate headquarters of an "eligible business" from a location outside of Indiana to an Indiana location. The corporate headquarters building or buildings must contain the principal offices of the principal executive officers of the eligible business. An "eligible business" must: (1) be engaged in either interstate or intrastate commerce; (2) maintain a corporate headquarters at a location outside Indiana; (3) have not previously maintained a corporate headquarters at a location in Indiana; (4) have had annual worldwide revenues of at least $500 M in the year previous to the year of application for the tax credit; and (5) commit contractually to relocating its corporate headquarters to Indiana.

The credit is not refundable. Credits in excess of the taxpayer’s state tax liability may be carried over for nine succeeding years. The taxpayer is not allowed to carry back any unused credit. In addition, the credit is not allowed to reduce a qualifying taxpayer’s state tax liability below the amount paid by the taxpayer in the tax year immediately preceding the year the taxpayer first incurred relocation costs. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

The credit is effective beginning in tax year 2006. Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

(Revised) *Hoosier Growth Scholars Tax Credit:* The bill establishes a refundable tax credit that: (1) could be awarded on a provisional basis by the Student Assistance Commission to an undergraduate student enrolled in a degree program offered at an institution of higher education located in Madison County, Grant County or Huntington County; and (2) would be claimed in tax years subsequent to the student’s graduation if the student is employed in the county where they obtained their degree. The individual must also be employed in a field of targeted employment. An eligible taxpayer could potentially be entitled to a maximum tax credit of $2,000 per year over four consecutive tax years after graduation. The fiscal impact of the credit could potentially begin in FY 2007.

The bill permits the Student Assistance Commission to award a provisional tax credit during an academic year to a full-time undergraduate student who is enrolled in a degree program. To be eligible for a provisional tax credit, the student also must meet specified academic requirements and additional eligibility requirements imposed by the Commission. The maximum provisional credit is $2,000 per academic year. The provisional credit may not be claimed against the student’s Adjusted Gross Income (AGI) Tax. Rather, the provisional credit may be claimed once the student has graduated from a degree program and is employed in a field of targeted employment in the county where they obtained their degree.

The bill defines targeted employment as employment in any of the following business activities.

(1) Advanced manufacturing, including the following:
- (A) Automotive and electronics.
- (B) Aerospace technology.
- (C) Robotics.
- (D) Engineering design technology.

(2) Life sciences, including the following:
- (A) Orthopedics or medical devices.
- (B) Biomedical research or development.
- (C) Pharmaceutical manufacturing.
- (D) Agribusiness.
- (E) Nanotechnology or molecular manufacturing.

(3) Information technology, including the following:
- (A) Informatics.
- (B) Certified network administration.
- (C) Software development.
- (D) Fiber optics.

(4) Twenty-first Century logistics, including the following:
- (A) High-tech distribution.
- (B) Efficient and effective flow and storage of goods, services, or information.
- (C) Intermodal ports.

Under the bill, the provisional credits would be claimed in the order of an academic year in the certified degree program during which they were awarded. Thus, a provisional credit awarded in a student's first year in a certified degree program would be claimed in the first taxable year after graduation; and a provisional credit awarded in the fourth year in a certified degree program would be claimed in the fourth taxable year after graduation.

Under the bill, the tax credit is refundable. The bill limits the amount of a provisional credit to $2,000 per student per academic year. Assuming the Commission can establish eligibility requirements for the Indiana Growth Scholars Program by the fall of 2005, provisional credits could potentially be awarded for the first time during the 2005-2006 academic year for those students with one year remaining to complete an associate's or bachelor's degree and may potentially be employed in a targeted field in one of the three eligible counties. As a result, provisional credits could be claimed for the first time by graduates of a degree program in tax year 2006. This would have a fiscal impact in FY 2007. Provisional credits awarded in the 2005-2006 academic year to a student beginning in a four-year degree program could, at the earliest, be claimed in tax year 2010. However it is unknown how many students will graduate from the six universities or colleges in Madison, Grant and Huntington Counties and be employed in the targeted business activities in the respective counties from which they graduated.

Background: Anderson University and Ivy Tech State College-Anderson are located in Madison County. Wesleyan University, Taylor University and Ivy Tech State College-Marion are located in Grant County. Huntington College is located in Huntington County.

Abatements and TIF Areas: The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements or TIFs would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment had been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

Explanation of Local Expenditures: *Regional Venture Capital Funds:* Under the bill, counties or municipalities with CEDIT revenue would have the option of using amounts of their CEDIT revenue for regional venture capital projects. The county auditor would be required to establish a regional venture capital fund (RVCF) to retain CEDIT revenue distributed to local taxing units in the county. In addition, an RVCF may receive proceeds of either public or private grants.

RVCFs would be administered by a governing board of an unspecified number of individuals. A participating unit in an interlocal agreement must have at least one member on the governing board. Expenses to operate the RVCF would be paid from money in the RVCF.

Explanation of Local Revenues: *Abatements and TIF Areas:* Under current law, real property, new manufacturing equipment and new research and development equipment may qualify for property tax abatements. The abatements may be granted for periods up to ten years. Currently, no new abatements can be granted after December 31, 2005.

Under current law, TIFs may be established for periods of up to 50 years. Proceeds from TIF allocations may be used to:

1. Pay debt service on obligations incurred for the financing of redevelopment in the allocation area;
2. Deposit funds into a debt service reserve to pay bonds;
3. Pay debt service on bonds used to pay for local improvements in or serving the allocation area;
4. Pay premiums on early bond redemptions;
5. Make lease payments;
6. Reimburse the local unit for the cost of making local improvements;
7. Reimburse the local unit for rent paid by the unit for a building or parking facility in or serving the allocation area;
8. Pay a PTRC-like credit to taxpayers in the allocation area;
9. Pay expenses incurred by the redevelopment commission for public improvements in or serving the allocation area; and
10. Reimburse public and private parties for expenses in training employees of certain industrial facilities.

Currently, no new TIFs may be created after December 31, 2005.

This bill extends the December 31, 2005 deadline to December 31, 2017 for granting abatements and establishing TIFs. If there is an increase in development because of the continued use of abatements and TIFs, the new property would, at some point, be placed on the tax rolls. For abatements this could help spread the property tax burden and could possibly reduce some tax rates, and for TIF areas it increases revenue for the redevelopment commission. However, if one assumes that the investment would be made with or without the abatement or TIF, any increase in abatements (ERAs) and TIFs could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement or TIF is a local decision.

The impact would depend on the value of new abatements and TIFs that might be granted after CY 2005 and before CY 2018 under this provision. The following chart shows the AV for real and personal property abatements and total TIFs for the last 10 years.

Year	Abatements				TI Fs	
	Real	Personal	Total	Increase	Total	Increase
1994	$41,790,975	$54,579,109	$96,370,085		$23,116,487	
1995	42,660,544	44,913,061	87,573,605	(8,796,480)	27,555,225	4,438,738
1996	39,409,092	66,760,681	106,169,772	18,596,168	32,003,233	4,448,008
1997	41,483,134	49,280,601	90,763,735	(15,406,038)	31,998,229	(5,004)
1998	43,312,527	43,532,906	86,845,433	(3,918,302)	38,078,710	6,080,481
1999	47,739,446	49,989,013	97,728,459	10,883,026	40,528,120	2,449,410
2000	50,877,703	70,955,197	121,832,900	24,104,441	51,193,949	10,665,829
2001	57,247,336	94,062,035	151,309,370	29,476,471	29,191,747	(22,002,202)
2002	65,621,529	102,594,325	168,215,854	16,906,484	44,379,676	15,187,929
2003	59,113,642	154,181,896	213,295,539	45,079,685	29,950,248	(14,429,428)

Current law authorizes abatements for new "logistical distribution equipment" and new "information technology (IT) equipment" if it is installed (1) by December 31, 2005 and (2) in an economic revitalization area of a county located within a 107-mile stretch of I-69. Under this provision, the abatement would be available for logistical distribution and IT equipment installed in any economic revitalization area of any county. The bill would also delay the December 31, 2005, deadline for these abatements to be granted to December 31, 2017.

Logistical distribution equipment is defined as racks, scanners, separators, conveyors, forklifts, moving equipment, packaging equipment, sorting and picking equipment, and software. IT equipment is defined as equipment and software used in the fields of information processing, office automation, telecommunication facilities and networks, informatics, network administration, software development, and fiber optics.

Abatement Filing: Under current law, taxpayers annually file a deduction application with the county auditor for personal property abatements. The county auditor must review the application and may request assistance from the township assessor. The county auditor must then approve, deny, or alter the deduction amount. Taxpayer appeals are currently made to the county court.

Under this provision, taxpayers would instead file a deduction schedule with the township assessor as part of the personal property return. The township assessor would forward the schedule to the county auditor and county assessor. Both the county and township assessors would be permitted to review and deny or alter the amount of the deduction before March 1 of the following year. The county auditor would be required to apply the full or altered (if altered by an assessor) deduction amount if the claim is not denied before March 1. If either assessor denies or alters the claim, then the assessor taking the action would notify the county auditor and the taxpayer. The taxpayer may appeal a change or denial within 45 days by requesting a preliminary conference with the appropriate assessor. Appeals would then follow the usual appeal process for property tax-related matters.

Under current law, taxpayers must file a deduction application with the county auditor for real property abatements in the assessment year in which the added AV takes effect. The county auditor may ask the township assessor to review the application. The county auditor must make the appropriate deduction. Taxpayer appeals are currently made to the county court. This provision would permit a taxpayer to appeal a change or denial within 45 days by requesting a preliminary conference with the county auditor. Appeals would then follow the usual appeal process for property tax-related matters.

(Revised) *Property Tax Investment Deduction (Limited):* Under this provision, the increase in assessed value (AV) from certain real and personal property additions would qualify for property tax deductions over a period of four years. The deduction would apply if the property owner creates or retains jobs because of the project.

The deduction would apply to the following property that is first assessed on March 1, 2006, 2007, 2008, or 2009:

1. Real property AV that is added due to development, redevelopment, or rehabilitation; and
2. Personal property installed by the owner that was never before used by its owner in Indiana.

The real property deduction would not be available for the following facilities: golf courses, country clubs, massage parlors, tennis clubs, racetracks, package liquor stores, residential property unless it is low income or in a residentially distressed area, or facilities for skating, racquet sport, hot tubs, suntans, retail food and beverage sales, automobile sales or service, or other retail facilities.

The deductions for both real and personal property would equal 75% of the AV increase in the first assessment year, 50% in the second year, and 25% in the third year. Each property owner would be limited to $2M AV in real property deductions plus $2M AV in personal property deductions within each county.

Taxpayers would not be permitted to claim more than one deduction for which the project may qualify. So, for example, a taxpayer could not claim both a regular abatement and this deduction on the same property. Taxpayers who are located in a TIF area would not be eligible for the deduction.

The real property deduction is much like the existing 3-year abatement for real property. The personal property deduction differs from the current personal property abatement in that the current abatement is available only for manufacturing, research, and logistic equipment. The proposed deduction has no such requirement on the use of the equipment. The deduction percentages for both the proposed real and personal property deductions are lower than the current abatement percentages.

Taxpayers seeking the real property deduction would have to file a claim for the deduction with the township assessor. Taxpayers seeking the personal property deduction would have to claim the deduction on their personal property tax return.

(Revised) *Property Tax Investment Deduction (General):* Under this provision, the assessed value of new or rehabilitated real and personal property would be phased in over a period of four years. To accomplish the phase-in, a 75% deduction would be applied to the new or added valuation in the first year of assessment, a 50% deduction would be applied in the second year, and a 25% deduction would be applied in the third year.

The phase-in deduction would not be available for real and personal property owned by a retail business or to new single family homes. The additional AV resulting from the rehabilitation of existing single family homes would, however, receive the deduction. The deduction would be applied automatically and no application by the taxpayer would be required. Taxpayers would not be permitted to claim more than one deduction for which the project may qualify.

This deduction would have no expiration date and would have no maximum deduction amount per taxpayer.

Both Property Tax Investment Deductions (General and Limited): The investment deduction would slow the growth of both real and personal property AV for property that would have been put in place regardless of the deduction. If there is an increase in development because of the availability of the deduction, then the new property would provide for an increase in the tax base.

Tax shifts between existing and new or rehabilitated property. Generally speaking, the addition of assessed value to the tax base provides a tax shift from existing property to new property by spreading the tax levy over a larger tax base. The proposed deduction would slow this shift as it pertains to property that would have been put in place regardless of the deduction. This shift could also be accelerated if the availability of the deduction results in an increase in development.

Tax shifts between property classes. The varying rates at which assessed values in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for businesses is affected by this bill will determine whether any tax shifts will occur between classes. Regarding property that would have been put in place regardless of the deduction, this bill would shift some taxes from businesses to other property classes. However, any increase in development that is spurred by the deduction would shift taxes from non-business property classes to businesses.

Regional Venture Capital Funds: The impact of this provision to local CEDIT revenue would depend on local action. Under the bill, two or more counties or municipalities would have the option of authorizing CEDIT revenue to be placed in the RVCF to generate economic development, technology development, and industrial/commercial growth. Counties and municipalities that were to pool into an RVCF would have less of their CEDIT revenue available for other uses allowed under current law. Money in the RVCF would be allowed to be loaned or granted to either a private or public entity. Money granted or loaned would have to be expended under the following options:

(1) Research and development technology.
(2) Job training and education.
(3) Acquisition of property interests.
(4) Infrastructure improvements.
(5) New buildings or structures.
(6) Rehabilitation, renovation, or enlargement of buildings or structures.
(7) Machinery, equipment, and furnishings.

The bill does not authorize an increase in a county's CEDIT rate.

Under current law, CEDIT revenue may be used for several purposes including the following:

(1) County, city, or town economic or capital development projects.
(2) Capital improvement plans.
(3) Funding for increased homestead credit due to the reduction of state and county inventory taxes.
(4) Maintenance of courthouse facilities.

There are currently 71 counties that have adopted CEDIT. Certified distributions for all adopting counties totaled $197 M in CY 2005. Under current law, CEDIT rates may be set at 0.1%, 0.2%, 0.25%, 0.3%, 0.35%, 0.4%, 0.45%, and 0.5%. A county must adopt a rate increase in CEDIT by April 1 of a given year. In July of that year, the State Budget Agency calculates a certified distribution for the following year. (Counties do not receive any additional revenue until January of the year following the rate increase and certified distribution.)

State Agencies Affected: Indiana Economic Development Corporation; EDGE Board; Department of Local Government Finance; Department of State Revenue; State Board of Accounts; State Student Assistance Commission; Ivy Tech State College-Anderson; Ivy Tech State College-Marion.

Local Agencies Affected: Township and county assessors; County auditors; Counties that have adopted CEDIT; Madison County; Grant County; Huntington County.

Information Sources: National Science Foundation, *Survey of Industry Research and Development*; Township assessors; County auditors; Department of State Revenue. Lynette Curtis, Indiana Department of Commerce, (317) 232-8898. State Budget Agency. *Where the Headquarters are - Evidence from Large Public Companies 1990-2000.* Federal Reserve Bank of Chicago, Working Paper 2003-35.

Fiscal Analyst: Bob Sigalow, 317-232-9859; Jim Landers, 317-232-9869; Adam Brown, 317-232-9854; Diane Powers, 317-232-9853; Chris Baker, 317-232-9851.